



TO: ELECTRIC COMPETITION ADVISORY GROUP

FROM: KEVIN C. HIGGINS, ENERGY STRATEGIES
on behalf of ARIZONANS FOR ELECTRIC CHOICE AND COMPETITION
(AECC)

SUBJECT: RESPONSES TO QUESTIONS DATED MARCH 19, 2003

DATE: APRIL 11, 2003

- a. **Please indicate what sections of the Retail Electric Competition Rule should be revised.**
- b. **Please summarize briefly why the sections listed in part (a) above, require revisions.**

- **1601.33 and 1606(A). Eliminate references to “Provider of Last Resort.”**

“Provider of Last Resort is a redundant concept. It is merely a subset of Standard Offer Service. The Rules already require that Affected Utilities and UDCs must make Standard Offer Service available [1606(A)]. Moreover, Standard Offer Service, by the terms of its definition [1606.38], must be offered to all customers. Therefore, “Provider of Last Resort” offers no additional protections. It should be eliminated to avoid potential confusion.

- **1606(B). Make conforming changes to comply with the Commission’s decision to modify the terms of competitive procurement for standard offer service pursuant to the Track B process.**

The Rules need to be made consistent with Commission Decision No. 65154 issued September 10, 2002.

- **1615(A). Make conforming changes to comply with the Commission’s decision eliminating the divestiture requirement.**

The Rules need to be made consistent with Commission Decision No. 65743 issued March 14, 2003.

- **1616(B)(1). Modify this section to allow UDCs to provide Meter Services and Meter Reading Services for direct access service.**

The restrictions on UDCs providing Meter Services and Meter Reading Services for direct access service are unnecessary and a potential obstacle to efficient provision of direct access service.

- c. **Please identify market issues related to the provisions in the Retail Electric Competition Rules that generally impeded or discourage competition.**

Generally, except as noted in the response to (b) above regarding metering, the provisions in the Rules do not impede competition.

Retail competition has not been sustained in APS' territory because the Standard Offer Rates negotiated pursuant to the 1999 Settlement Agreement have been more attractive than the direct access alternative. Although it has impeded the development of direct access, the availability of this lower-cost option has nevertheless been good for customers. APS' stranded cost charge – to which the Company is entitled by the terms of the Settlement Agreement through 12/31/04 – is an additional impediment to direct access service. With the filing of a rate case on the horizon, and the expiration of the stranded cost charge scheduled at the end of next year, the economics of direct access in the APS territory are likely to change.

Retail competition has not been sustained in TEP's territory because the "Adders" established in Section 2 of the 1999 TEP Settlement Agreement are set too low. This impediment can be removed by increasing the Adders sufficiently. The "Adders" are used in calculating TEP's "Floating CTC." According to Section 2.1(f) of the 1999 TEP Settlement Agreement, the Adder "is intended to estimate the difference between the flat load costs associated with the PV Index and the actual customer load characteristics plus an additional amount for costs that will not be readily quantifiable until the Arizona market more fully develops." The agreement provides that after June 1, 2004, any party to the Settlement Agreement may submit a request to the Commission to alter/amend the initial Adder based upon actual market conditions. Pursuant to Section 5.2 of the Settlement Agreement, any changes proposed to the Adder would be considered for implementation effective January 1, 2005.

d. Please provide information on issues that the Retail Electric Competition Rules do not currently address but should.

The Rules should provide guidance on the terms for returning to Standard Offer Service from direct access service. A good standard is that contained in the APS Settlement Agreement (as amended), which places no restrictions on return to Standard Offer service for customers with loads under 3 MW, and provides that customers with loads 3 MW and greater may return to Standard Offer tariff rates after one-year's notice. These larger customers may also return to bundled utility service with less than one year's notice, but at incremental costs.